

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

KENTUCKY WATER SERVICE)	
COMPANY, INC., PURCHASED)	CASE NO. 8370-1
WATER SURCHARGE AND)	
RATE ADJUSTMENT)	

O R D E R

On December 21, 1983, Kentucky Water Service Company, Inc., ("Kentucky Water") filed an application with the Public Service Commission ("Commission") requesting authority to adjust its rates to customers in Middlesboro, Kentucky, and to establish a surcharge to recover an increase in purchased water costs by its supplier, Fern Lake Company ("Fern Lake"), resulting from a surcharge approved for Fern Lake in Case No. 7982, Notice of Application of Fern Lake Company, dated July 23, 1981. On December 29, 1983, Kentucky Water filed a motion requesting a deviation from 807 KAR 5:001, Section 13, which would allow it to place the proposed rates and surcharge into effect January 1, 1984, or in the alternative to correlate the date on which Fern Lake's surcharge becomes effective with the date its surcharge is permitted to become effective.

RATE ADJUSTMENT AND SURCHARGE

By Interim Order in Case No. 7292, Application of Fern Lake Company for Increase in Wholesale Water Costs and to

Borrow \$125,000, dated January 30, 1979, Kentucky Water's supplier for the Middlesboro area was granted a monthly surcharge of \$1,793. The increased cost of purchased water was passed on to Kentucky Water's Middlesboro customers through an increase in its basic rates. Subsequently, by Interim Order dated February 27, 1981, in Case No. 7982, the Commission approved construction financing for Fern Lake and a surcharge in an amount sufficient to amortize the construction loan, and further ordered that the initial surcharge of \$1,793 cease simultaneously with the implementation of the new surcharge. In compliance with further requirements of that Order, the amount of the new surcharge has now been established as \$18,700 per month with the first surcharge payment due from Kentucky Water on January 31, 1984.

Kentucky Water proposed to reduce its basic rate schedule for Middlesboro to eliminate the \$1,793 initial monthly surcharge from its basic rates and to establish a separate surcharge of \$.5643 per 1,000 gallons to recover the \$18,700 monthly surcharge based on water sales for the 12-month period ending October 31, 1983. A comparison of the rate schedule approved in Kentucky Water's most recent rate case (Case No. 8370, Notice of Kentucky Water Service Company, Inc., of Adjustment of Water Rates, final Order dated April 9, 1982), the rate schedule after adjustment for the \$1,793 surcharge, and the proposed rate schedule shows that the reductions to the various rate steps do not parallel the

increases made for the initial surcharge. While the Commission is aware an exact parallel cannot be accomplished due to changes in volume and usage patterns, it is of the opinion that the reductions should be applied so as to parallel as closely as possible the prior increases.

The Commission is of the opinion that the proposed surcharge is the most appropriate method of recovering the increased cost of purchased water and that the calculations made by Kentucky Water in determining the surcharge amount are correct. Moreover, Kentucky Water should maintain a separate record of all monies derived from implementation of the surcharge and file an addendum to its Annual Report to the Commission setting out the amount collected and paid to Fern Lake during the year. Any monies collected in excess of the \$18,700 monthly surcharge allowed should be maintained in a separate account to be applied only toward payment of the surcharge imposed by Fern Lake. Further, Kentucky Water should review the surcharge and revenues at the end of each 12-month period and make appropriate filings with the Commission for adjustments as necessary.

The Commission, having reviewed the evidence of record and being advised, is of the opinion and finds that:

1. Kentucky Water's supplier, Fern Lake, increased the cost of wholesale water by \$18,700 per month effective for billing due January 31, 1984.

2. For purposes of future application of the purchased water adjustment clause of Kentucky Water, the base rate for purchased water should be:

<u>Supplier</u>	<u>Rates</u>
Fern Lake Company	First 41,667,000 gallons \$5,325.00 Minimum
	Each Additional 1,000 .14 per 1,000
	gallons gallons

Fern Lake Surcharge: \$18,700 per month

3. The surcharge in the amount of \$.5643 per 1,000 gallons proposed by Kentucky Water is correct, and is fair, just and reasonable and should be approved.

4. Kentucky Water should maintain a separate record of all monies derived from implementation of the surcharge and file a report as an addendum to its Annual Report to the Commission by month for each year the surcharge is in effect. Any monies collected in excess of the \$18,700 monthly surcharge allowed should be maintained in a separate account to be applied only toward payment of the surcharge imposed by Fern Lake. Further, Kentucky Water should review the surcharge and revenues at the end of each 12-month period and make appropriate filings with the Commission for adjustments as necessary.

5. The rates proposed by Kentucky Water are unfair, unjust and unreasonable and should be denied.

6. The rates in Appendix A are the fair, just and reasonable rates to be charged by Kentucky Water and should be approved.

IT IS THEREFORE ORDERED that the rates proposed by Kentucky Water be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and surcharge in Appendix A be and they hereby are approved effective for service rendered on and after January 1, 1984.

IT IS FURTHER ORDERED that Kentucky Water shall maintain a separate record of all monies derived from the surcharge and file a report in accordance with Finding No. 5 herein.

IT IS FURTHER ORDERED that any monies collected in excess of the \$18,700 monthly surcharge allowed shall be maintained in a separate account to be applied only toward payment of the surcharge imposed by Fern Lake. Further, Kentucky Water shall review the surcharge and revenues at the end of each 12-month period and make appropriate filings with the Commission for adjustments as necessary.

IT IS FURTHER ORDERED that for purposes of future application of Kentucky Water's purchased water adjustment clause, the base rate for purchased water shall be:

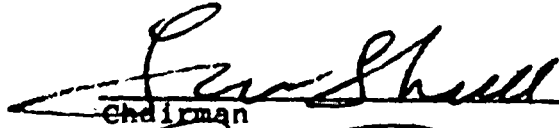
<u>Supplier</u>		
Fern Lake Company	First 41,667,000 gallons	\$5325.00 Minimum
	Each additional 1,000 gallons	.14 per 1,000 gallons

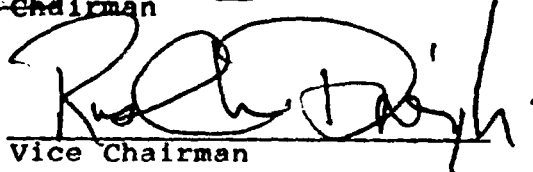
Fern Lake Surcharge: \$18,700 per month

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Kentucky Water shall file its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 26th day of January,
1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8370-A DATED 1/26/84

The following rates are prescribed for customers of Kentucky Water Service Company, Inc., receiving water service in Middlesboro, Kentucky, and environs. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Rates: Monthly

Middlesboro

First	1,000 gallons	\$5.15 (Minimum)
Next	9,000 gallons	2.00 per 1,000 gallons
Next	15,000 gallons	1.90 per 1,000 gallons
Next	25,000 gallons	1.75 per 1,000 gallons
Next	50,000 gallons	1.60 per 1,000 gallons
Over	100,000 gallons	1.45 per 1,000 gallons

Minimum Monthly Charges

<u>Meter Size</u>	<u>Minimum</u>
5/8 or 3/4 inch meter	\$ 5.15
1 or 1 1/4 inch meter	15.15
1 1/2 inch meter	29.00
2 inch meter	44.75
3 inch meter	124.80
4 inch meter	215.30
6 inch meter	438.70

*An additional surcharge of \$.5643 per 1,000 gallons shall be added to the monthly bills of all customers in Middlesboro, Kentucky, and environs.